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LEAGUE OF NATIONS

FINANCIAL COMMITTEE

Report to the Council on the Work of
the Sixty-eighth Session of the Committee

(Geneva, June 15th-20th, 1939)

AGRICULTURAL CREDIT
MEDIUM-TERM CREDIT TO
INDUSTRY

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Series of League of Nations Publications

II. ECONOMIC AND FINANCIAL

1939. II.A. 15.

¹ The general report of the Financial Committee and its report on Bulgaria and the position of the Trustees of the Hungarian Loan of 1924 are printed separately as document C.176.M.105.1939.II.A [Pt. I].

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AGRICULTURAL CREDIT

1. In September 1937, the Assembly asked the Economic and Financial Organisation to arrange for "the study of systems of agricultural credit and insurance with a view to the elaboration of principles calculated to strengthen internal and external credit and suitable for adoption by countries contemplating a modification of their legislation on these subjects".

Subsequently, M. Louis TARDY, Honorary Director-General of the Caisse nationale de Crédit agricole (Paris), was asked to conduct an enquiry, with special reference to the agricultural countries of Central and Eastern Europe.

In December 1938, the Financial Committee considered and made some observations on the report in which M. Tardy embodied the results of his enquiry. The Committee remarked that M. Tardy's report ¹ constituted one facet of the work which the Assembly had asked for. It remained to deal with certain wider aspects of the problem: agricultural credit in relationship with general economic conditions.

2. There are two sides to the problem of agricultural credit: the collection of the savings of the community and the provision of machinery to meet the agriculturists' credit needs. In current discussions, attention is generally concentrated on the latter side of the problem, but the former is also important. It is worthy of note that the provision of agricultural credit appears to be most satisfactory in countries where efficient machinery for the collection of farmers' savings exists. Thus, in Denmark, the rural savings banks are an important source of the funds used in agriculture: on March 31st, 1937, their long-term loans to agriculture amounted to 34% of total deposits and further advances were made on medium and short-term. In Finland, the rural

¹ *Report on Systems of Agricultural Credit and Insurance* (document C.479.M.322. 1938.II.A).

savings banks' loans to agriculture at the end of 1937 amounted to 70% of their deposits. The proportion was also high in Sweden; and in Belgium the savings banks granted during the past ten years agricultural loans amounting to 700 million francs, with maturity in some cases up to fourteen years at an average rate of 4½%. In France, the support of the savings banks is felt indirectly; their funds are centralised in the Caisse des dépôts et consignations, which makes advances to the State which are used to provide funds to the Caisses mutuelles de Crédit agricole.

On the other hand, where no adequate machinery for the collection of the savings of the agricultural community exists—for example, in some Eastern countries or districts where savings are normally hoarded in the form of precious metals or specie—the inadequacy of agricultural credit is strikingly apparent. In such cases, the peasant when he borrows is forced to have recourse to members of his family, merchants or his richer neighbours. Usury is common in spite of legislation prohibiting it; and this is the principal explanation of the efforts made to organise this branch of credit. Even in countries where banking facilities for the collection of savings do exist, they are sometimes inadequate.

Whatever may be the system of agricultural credit, the resources at its disposal must come in the first instance from the savings of the community. If State subsidies, which are justified and necessary as exceptional measures in case of crop failures and other catastrophes, become endemic in the system of agricultural credit, there is a serious risk that the habit of regular repayment of borrowed moneys will be undermined, to the great detriment of the development of a sound system of agricultural credit—to say nothing of the risk of excessive budgetary burdens and that of economic maladjustment to which we allude below. The savings of the community may be supplemented by the use of foreign capital in cases where good security can be offered to the lender. The application of scientific knowledge, improvements in agricultural efficiency through, for example, the use of machinery and machine-made implements, and desirable diversification of output are frequently hindered because domestic capital resources available for agriculture are inadequate. In international lending for agriculture—as for industry—it is of primary importance, not only to ensure that the funds are used for productive purposes, but also to give close

consideration to the effects of the developments thus financed on the transfer capacity of the borrowing country. In the past, too little attention has perhaps been paid to this aspect of the question—and, on occasion, a burden of debt service has been created which has been out of line with foreign marketing possibilities. A discussion of the problems involved—for example, the necessity for lending countries to co-ordinate their commercial policy with their creditor status, the necessity for borrowing countries to adapt their production to the trends of world demand and to establish efficient grading and marketing organisations—would go beyond the scope of this report; but it is essential that they be faced by those concerned with international borrowing and lending for agricultural development.

One general guiding principle we may, however, at once lay down—namely, that international loans to agriculture, as all international loans, are financially sound only if there are good grounds for believing that they will raise the transfer capacity of the borrowing country during the whole life of the loan by at least an amount equal to its annual service.

3. Before discussing the machinery of agricultural credit, certain broad economic considerations may be briefly indicated.

It is obvious that agriculture, the chief industry of many countries and an important industry in almost every country, has credit needs which should be met as efficiently and economically as possible. The efficiency of production, of basic importance for the standard of living of both the agriculturist himself and the consumer of agricultural products, depends to a considerable extent upon the existence of an adequate credit mechanism.

As in every other form of production, however, it is essential, if maladjustments are to be avoided, that the amount, the form and the uses of agricultural credit should be adapted to the basic trends affecting world agriculture. If the non-discriminate provision of as much and as cheap agricultural credit as possible comes to be viewed as a necessary social function to be carried out regardless of these basic trends, maladjustments between supply and demand will inevitably be created and existing maladjustments intensified.

We are led to make this elementary observation because current discussion of the question does not always pay sufficient attention to certain basic factors affecting the probable long-run demand for

agricultural products. In particular, the rise which has taken place in standards of living over the greater part of the world in recent decades has resulted in a tendency for consumption to become more diversified and for the simpler necessities of life to play a less important part in total consumption. Agricultural products are tending to form a smaller proportion of consumers' demand (durable manufactured goods and services becoming increasingly important) and the character of the agricultural products demanded is changing; a relative shift is taking place away from the great staples to foods of special nutritive value such as fruit, dairy products and vegetables. These tendencies involve and will continue to involve adjustments in the volume and form of agricultural production. The natural and laudable desire to improve the machinery of agricultural credit should not be allowed to obscure the fact that the trend of demand for certain classes of agricultural products is downward and that adjustments must continue to be made. If agricultural credit is employed to maintain permanently a larger agricultural population than is required to produce the quantities of agricultural products demanded or if it is used to hinder the necessary switches from one type of crop to another, the result will be a permanent position of disequilibrium in world agricultural markets from which the farmer himself will be the first to suffer.

We are of course aware of the difficult political and social problems involved, but we consider it our duty, particularly to-day when over-capacity in many branches of agricultural production permanently threatens producers with unremuneratively low prices and States are obliged to subsidise producers and guarantee a minimum return, to insist that account must be taken of these basic trends and that agricultural policy in general and agricultural credit in particular should not perpetuate maladjustments.

4. On the contrary, the machinery of agricultural credit should be used to facilitate adjustments and, where possible, to redress the balance in cases where it has been disturbed by State intervention or other factors. One example will illustrate the point: the division of the large estates consequent upon schemes of land reform in certain countries of Central and Eastern Europe after the war brought about a change in the size of holdings from one appropriate to extensive cereal cultivation to one appropriate to

diversified production of high-value products. But the peasants acquiring the small-holdings were generally unable to go in for the intensive production appropriate to the size of their farms—that is, mixed farming, fruit and vegetables—because they lacked the necessary capital resources and those countries were lacking in the necessary organisation for storing, grading and marketing perishable crops. Capital outlay is required to acquire live-stock, to house it and to buy fodder crops; fruit trees do not bear for two to six years and resources must be tied up for this period. Capital is no less necessary for marketing. Consequently, most of the peasants concerned were obliged, in the absence of adequate capital or access to capital, to go on producing cereals on their smallholdings.

In such cases, the granting of special advantages to agriculture as regards credit is justified both in equity and on general economic grounds. For, if the social policy of the State—the division of the great estates—makes agriculture relatively less credit-worthy as compared with industry than it had been before, artificial conditions are created, tending to direct capital away from the land. In these circumstances, it is right that the State should endeavour to counteract this effect.

Probably the cheapest and most flexible means of assisting agriculture in such conditions is through the use of agricultural credit. It can be used to facilitate a change in the character of the crop and thus not only redress the balance for the individual peasant by enabling him to concentrate on the products economically appropriate to the size of his unit but also facilitate the adaptation of production to the basic trends in demand referred to in the preceding paragraph.

The proof that much can be done to encourage such adaptation lies in the fact that much has already been done. It is only necessary to recall the successful efforts to stimulate the production, for example, of grapes in Bulgaria, soya beans instead of wheat and maize in Roumania, apricots in Hungary. But much still remains to be done along these lines, and agricultural credit can play a very important part in adapting agriculture to world economic conditions and raising the standard of living of agriculturists if those responsible for its administration pay close attention to the trends in foreign and domestic consumption. We would draw

particular attention to the desirability of the smaller States in process of industrialisation encouraging the production of the raw materials required by domestic industry.

5. The machinery of agricultural credit calls for no detailed comment, as this necessarily varies with local conditions and traditions. No useful purpose would therefore be served by attempting to construct a theoretically perfect framework universally applicable in time and space. No country is setting out *de novo* to establish a system of agricultural credit; some institutions, which in fact provide credit to agriculture, exist in every country; and in attempting to perfect the organisation of agricultural credit, the existing machinery—which has, for several countries, been described in M. Tardy's report—will generally serve as a basis.

So far as long-term credit for agriculture is concerned, experience shows that this can best be furnished through mortgage banks specially created for the purpose and that a well-organised land register is important. It should be a concern of Governments to provide such a register where one does not already exist. The State can help to reduce the cost of such credit by keeping accessory charges on mortgages, such for example as stamp duties and taxes, as low as is possible, having regard to the exigencies of the budgetary situation. As a general rule, however, it is undesirable that the State should, through permanent subsidies, keep the rate of interest on farm mortgages lower than the market valuation of the equilibrium rate; for if it does, there is a continuous premium on agricultural over-capacity with risks which will repel private capital from this field. On the other hand, it is important, particularly in agricultural countries whose industries are developing rapidly, to ensure that an adequate share of the savings of the community is made available for agricultural purposes. This could best be done by perfecting the organisation of mortgage credit banks, if necessary with State assistance, and by such banks granting mortgages prudently, on the basis of conservative valuations and after technical consultation.

The existing machinery for the provision of medium and short-term credits to agriculture is probably less adequate in most countries than that for the provision of long-term credit. In countries where the position appears to be most satisfactory, this type of credit is frequently handled through agricultural

co-operative banks with a three-story organisation in local, regional and central institutions. In some countries, however, the credit experience of these co-operatives has not been a happy one. They require to be managed by men of actual banking and not only co-operative experience, with the ability to estimate risks and an appreciation of the necessity of maintaining a certain liquidity of assets when short-term funds are used. Granted these conditions and a knowledge of market trends and requirements, agricultural co-operative banks could do much to improve the efficiency of agricultural production and guide it along the proper lines.

6. Although it would not be fruitful to attempt to lay down any hard-and-fast rules for the organisation of agricultural credit machinery, it is, we believe, possible to set out certain broad general principles which should be followed in its administration.

(a) The granting of credits for unproductive purposes should be strictly controlled; and farmers should not be encouraged to encumber their land and pile up a burden of debt out of relation with its earning capacity. If State assistance is given, it should be for the sole purpose of improving efficiency and the value of output: it is no part of the function of the State or the agricultural credit machinery to provide cheap loans for current consumption or for speculation on extra-marginal lands. In case of crop failure or other calamity, special measures of State assistance may be required, but such assistance should not normally be rendered by the agricultural credit machinery, nor should the co-operative societies be saddled with emergency loans to tide the farming population over a difficult period. The assistance given should, so far as possible, be kept clear of the ordinary credit machinery; there are many advantages in State help being given in kind, through the distribution of food crops where these have failed in certain districts, or of seeds, or perhaps in the form of tax relief.

(b) Care should be taken to avoid stimulating land speculation through the granting of cheap long-term credit based on the estimated value of agricultural property. Certain States wishing to favour land settlement have facilitated the acquisition of rural property by providing relatively large credits at relatively low rates of interest. If pushed to excess, this policy will defeat its own object, for the easier the credit terms available the higher tends to be the price of land and the more onerous its terms of purchase for the

small farmers the State is trying to help. Moreover, the heavy burden of debt caused by excessive encumbrance is a constant threat to the equity as well as to the stability of the financial institutions holding these mortgages in periods of depression when agricultural prices fall.

(c) For these reasons, the basis of credit—particularly long-term credit—in agriculture should be, not only the estimated capital value or realisation value of the property taken as security, but also its agricultural yield.

(d) Estimated yield and market conditions should be the principal guide in the granting of medium- and short-term production credits. The advantages of local management of the institutions granting such credits are worth preserving; but it is none the less essential to enforce a sound uniform financial policy, which can hardly be done without centralised control.

(e) Seasonal loans for seeds or fertilisers may with advantage be made on the basis of bills drawn on co-operative societies or firms supplying goods required by the farmer. They thus tend to be held to the uses they purport to serve and may be linked up with the general banking system through discount. This system should, however, not be used in a way which will facilitate trading or speculation in commodities by the co-operatives themselves.

(f) In general, the same principles that apply in ordinary business are valid in co-operative practice. Agricultural co-operatives should see to it that their credits are used for the purposes for which they are supplied and not for others, however good a credit risk the borrower may appear to be. No co-operative system can, however, work if—as has happened in certain countries—State banks make a practice of granting credit to farmers over the co-operatives' heads, skimming the best credit risks and leaving the weaker ones to the co-operatives.

(g) An important function of short credit is to facilitate the orderly marketing of crops throughout the harvest year. Through the judicious use of credit, sales can be spaced out and the seasonal variation in price reduced. In Poland, a special law enables the banks to grant credits to farmers, after the crop is harvested, on the pledge of wheat which remains with the debtor. The credit is repaid by monthly instalments from December to May of the year following the harvest. This system functions in a satisfactory manner.

A useful instrument to finance the holding of stocks with a view to orderly marketing would appear to be the warrant or warehouse receipt, a certificate of ownership of graded produce deposited in silos and central storehouses where it is kept in good condition. It would, in our opinion, be useful if a detailed study were undertaken of the activities of these organisations where they exist, and of the credit mechanisms connected with them.

(h) A central agricultural bank is in many countries likely to be valuable in co-ordinating financial policy with regard to agriculture. Such an institution, which need not be a State bank, may also be needed to discount paper of longer maturity than usual, such as that presented by special co-operatives for the use of agricultural machinery, breeders' associations and the like.

(i) The relationship between the Central Bank and the whole organisation of agricultural credit raises difficult problems, more particularly in countries where there is a central agricultural bank as well as a Central Bank. There is still room, in some agrarian countries, for an improvement in the services rendered to agriculture by the Central Bank; it is desirable that agricultural credit be integrated into the whole credit system. Such States cannot, of course, take over the regulations suitable for non-agricultural countries without thoroughly adapting them to domestic conditions. Where there is no highly organised system of agricultural credit, there is, however, a danger of the Central Bank's going too far in its discount of agricultural paper, impairing its liquidity and the solidity of the currency, and ultimately being obliged to have recourse to the State to cover its losses. On the other hand, as the Financial Committee has frequently had occasion to observe in its reports to the Council on the financial situation of certain European countries, if a central agricultural bank is unduly powerful, there is a constant danger of its being in a position to offset the policy of the Central Bank, which should, in all circumstances, be in a position to exercise the determining influence on general monetary and credit conditions affecting the stability of the currency.

In present circumstances, perhaps the most constructive contribution which could be made to the problem of agricultural credit would be a critical study of the relationship between agricultural credit systems and the credit system in general, including the Central Bank. The task is an arduous and complicated one, which

can best be undertaken by a relatively small group; we therefore propose to delegate a few of our members to make this study, and to invite the assistance of two or three experts in the administration of agricultural credit systems.

MEDIUM-TERM CREDIT TO INDUSTRY

1. The last Assembly instructed the Economic and Financial Organisation:

“to study the methods of providing medium-term credit to industry.”

The question was considered by the Financial Committee at its meeting in December last, and arrangements were made for additional information to be obtained from certain countries.¹

It is clear from the documents received that the problem assumes somewhat different forms and proportions according to the capital resources and banking equipment of each country.

2. In current discussions of this problem, the distinction between the need for capital and the need for credit tends to be blurred. It is, in our view, essential that a clear distinction be drawn between these two types of financial facilities.

3. In countries where there is a well-developed banking system and capital market, big industry has in normal circumstances no difficulty in obtaining the financial facilities it needs and can justify, whether in the form of equity money or in the form of short-, medium- or long-term credit. Large undertakings have access to open capital markets where they can sell their securities and to banking institutions where they can finance their ordinary credit needs and bridge over the interval between the time when funds are required and the opportune moment for public issue.

4. The general problem of financing through public issues becomes increasingly difficult in the case of medium- and small-sized undertakings. Such concerns have trouble in placing public issues, whether in the form of shares or bonds. The investing public prefers to put its money into firms whose names are nationally known and whose securities are listed on an exchange. The success of a small undertaking is frequently dependent upon the ability

¹ The Financial Committee wishes to express its appreciation of the very valuable assistance rendered to it by various central and commercial banks.

of one person; and the individual shareholder is unable to exercise the constant supervision and control that capital participation requires in such circumstances. In the second place, the cost of issue and of preliminary investigation is, generally speaking, proportionately higher on small than on large amounts.

5. The small industrial concern in need of capital or credit has therefore been accustomed to rely on a few individuals or on local banks knowing the business and the management personally. Frequently, such firms are tempted to finance, through bank borrowing, risks which in their nature are the risks of ownership. Such risks are, however, unsuitable for ordinary commercial banks which operate mainly with short-term deposits; nor can these banks afford to tie up their depositors' funds for long periods in the form of fixed or semi-permanent investment.

6. Medium-term credits can legitimately be granted to industry where the funds will be used productively but where it cannot reasonably be expected that the original advance can be amortised in less than a period of some years. In so far as such medium-term credit requirements exist, it is important for the development of industry and enterprise that small borrowers should be able to cover them. If they rely, however, on short-term bank loans, with prospect of renewal, then not only is there a risk that banking advances will become frozen, but the borrower himself may, at a time of economic pressure, be called upon to repay outstanding financial debts within a period that bears no relation to the original purpose of the commitment.

7. There is therefore a presumption that some credit institutions should exist for the provision of medium-term credit to small- and medium-sized industry. Certain types of medium-term credit requirements can be met by non-banking institutions: for example, the export-guarantee institutions set up by many Governments enable credit to be obtained for fairly long periods to finance exports; large producers with ready access to capital and credit sometimes lease equipment or sell it to small producers on a hire-purchase system; automobile finance and gasoline companies extend credit to purchasers and distributors for special purposes. But such initiatives have not covered the whole field, and in many countries special credit organisations have been set up for the provision of medium-term credit to industry.

8. It may be useful for us to summarise briefly the organisation of this type of credit in the countries from which we have received information. It is hardly necessary to point out that the organisation in each country reflects the peculiarities of its general financial structure and conditions and that it would therefore be misleading to attempt any comparisons between one country and another. Moreover, many of the institutions mentioned below go further than supplying medium-term credits: they make long-term loans and, in some cases, participate directly in the capital.

(a) *United States of America.*

In the United States, the principal source of medium-term credit to small industry up to the great depression was the local unit bank. Such local bank loans were sometimes secured by a short-term mortgage on real assets (a demand mortgage, or one running for one, three or five years) and sometimes were extended on a promissory note of ninety days to six months (with expectation of renewal), either unsecured, secured by collateral, or guaranteed by wealthy individuals interested in the enterprise. The operations of the borrowing firm were intimately known to the directorate of the local bank, which was thoroughly integrated in the life of the community; expenses of investigation were not heavy.

In the financial and industrial crisis of 1930-1934, loans became difficult to obtain; there were many bank failures; borrowers sometimes found renewals difficult to negotiate. Since the successful resolution of the banking crisis of 1933, the banks in general have, however, returned to their traditional lending practices, and the pressure of funds seeking investment has made them willing to extend credit to credit-worthy borrowers. They have been encouraged to extend credits of longer maturity than ordinary commercial paper by the 1935 revision of the banking laws permitting the Federal Reserve Banks to rediscount, under certain conditions, all types of paper presented by their members, provided it met the test of "soundness". Moreover, bank examination procedures have been revised to distinguish more sharply between "slow" and "doubtful" assets.

In the period of credit stringency of 1932, the Federal Reserve Banks were authorised to make commercial loans direct to industrial and commercial borrowers and the Reconstruction Finance Corporation was given similar powers. High standards were at first required on advances made, and few loans of this type were concluded. In 1934, the law was amended to authorise both the Federal Reserve Banks and the R.F.C. to make industrial loans on quite liberal terms as to maturity, interest rates and collateral, provided they met the test of possessing "full and adequate security". More recently, the R.F.C. has worked on the basis that such loans need only be backed by "reasonable security".

Despite this progressive relaxation of the credit standards required, neither the Federal Reserve Banks nor the R.F.C. have been able to make any considerable volume of advances. The Federal Reserve Banks' industrial advances outstanding at the end of 1938 amounted to only \$17 million; additional commitments

outstanding amounted to \$14 million. The total loans of member banks of the Federal Reserve system outstanding at the same date were \$14,000 million. Total applications for industrial loans received by the Federal Reserve Banks from the original grant of authority to the end of 1938 amounted to \$400 million, of which \$175 million were approved. At the end of 1938, the total loans of the R.F.C. to industrial and commercial businesses outstanding amounted to \$108 million.

(b) *United Kingdom.*

Since the Macmillan Commission drew attention in 1931 to the difficulties experienced by small firms in making public issues, a number of companies have been established for the supply of capital and credit to small firms. *Credit for Industry Limited*, a subsidiary of the United Dominions Trust, was established in 1934 with capital of £250,000. The parent company finances the movement of all types of goods by providing instalment and hire-purchase facilities for periods up to three years. Credit for Industry Limited has as its object the provision of capital of a medium-term character to the smaller industrial and commercial concerns whose needs are not large enough to justify the expense of an issue through the usual channels. Loans range from £100 to £50,000 and are repayable within periods not exceeding twenty years. A mortgage or debenture is usually taken as security; the rate charged varies, but " is probably less than the rate usually paid on the preference share ".¹ The annual reports of the parent company state that all applications for loans were carefully and sympathetically examined, but that " in only a small number of cases could the application be regarded as legitimate or justifiable ". In the first fifteen months of its existence, Credit for Industry Limited granted or approved in principle loans totalling about £1,250,000. Of this amount, less than £250,000 was actually paid out; the balance (apart from small sums awaiting settlement) was not used, because the applicant changed his mind and decided not to borrow, or because, " in a great many cases ", the money was obtained from other sources, including the banks, or for other reasons not stated. The parent company reported in 1936 that " the work involved in the administration of this company (i.e., Credit for Industry Limited) is still out of proportion to the results, and our return on our investment is inadequate ".

The *Charterhouse Industrial Development Company* was founded in June 1934 by the Charterhouse Investment Trust. Its capital is £500,000 and its purpose is to provide money to small undertakings in amounts from £10,000 to £100,000. It is supposed that the company generally takes up preference shares, thus participating to some extent in the equity, and that it invests for periods up to twenty years.²

The *Ladenhall Securities Corporation* was organised by Schröders in 1933 with a capital of £250,000, " to engage in the finance of medium and small home industrial business for which the normal machinery of the London market is inappropriate ". Its investments appear to take, as a rule, the form of redeemable preference shares

¹ Quoted in A. T. K. GRANT: *A Study of the Capital Market in Post-war Britain* (Macmillan, 1937).

² GRANT, *op. cit.*

and some common shares which are repurchased by the proprietor after four or five years.¹

A fourth institution—the *New Trading Company*—also participates in the capital of small- and medium-sized businesses. Other institutions also engage in the provision of financial facilities of the type under discussion; it is not possible to give an exhaustive list. Special mention should, however, be made of the *Special Areas Reconstruction Association, Limited*, formed for the purpose of enabling new enterprises to be established or existing enterprises extended in the Special (Depressed) areas. No capital is subscribed by the State, which contributes, however, to the expenses of management and guarantees 25% of losses on the total amount of loans granted by the Association. Applicants must satisfy the Association that their business has reasonable prospects of success and that they are unable to obtain adequate financial facilities elsewhere. The normal maximum limit of each loan is £10,000 for five years.

(c) *France.*

In France, too, problems connected with medium-term credits have arisen during the past twenty years. Fear of monetary disturbances and frequent appeals of the State and public corporations to the capital market have kept interest rates high. Moreover, it has been difficult for the private banks to secure large volumes of time deposits which could be used to extend medium-term credits, because public and semi-public savings institutions offer on sight deposits rates of interest at least equivalent to those which private institutions could offer only on time deposits.

However, a type of institution providing medium credit for industry has developed in Paris in the form of affiliates of large deposit banks. At present, there exist four such establishments supplying medium-term industrial credit which are in fact branches of the big deposit banks.²

As the capital resources of these special houses are generally limited, they rely on the funds of the banks to which they are affiliated and on the issue of bonds and *bons de caisse*. Their rôle is restricted to the actual negotiations with their clients in respect of medium-term loans, all administrative work being done by the

¹ GRANT, *op. cit.*

² The names, the affiliation and the scope of operations of these special houses are as follows:

Name	Affiliation to the deposit banks	Total assets in 1938 (except <i>comptes d'ordre</i>) Francs (000,000's)
1. Union pour le crédit à l'industrie nationale ^a	Crédit lyonnais et Comptoir d'escompte	146
2. Crédit à l'industrie française	Société générale	168
3. Union des banques régionales	Crédit industriel et commercial and a group of regional banks	142
4. Union bancaire du Nord	Crédit du Nord	...

^a This bank founded a branch specialised in the long-term credit to industry (*Omnium financier pour l'industrie nationale*) the total assets of which amounted in 1938 to 110 million francs.

respective deposit banks. They have often acquired important industrial participations. The scope of the operations of these institutions has, however, been limited, particularly for the reasons described above.

Immediately after the war, the Government established the *Crédit national pour faciliter la réparation des dommages causés par la guerre*, one object of which was to assist the entrepreneurs in the devastated areas to finance the reconstruction of their businesses. In the course of the past years, its activity has been extended to cover all types of industrial and commercial enterprise. The *Crédit national* is a private company, constituted by banks and leading industrial groups, but with the management appointed by the Government and the administration controlled by the Minister of Finance. This mixed character assures the bank of considerable resources; on the one hand, advances from the State and issue of bonds guaranteed by it; on the other hand, issue of non-guaranteed bonds which can be readily placed on account of the semi-public character of the institution.

The bank extends loans for a period not exceeding ten years and the aggregate of credits granted to any one undertaking may not exceed 10 million francs (15 millions under a proposal recently introduced in Parliament). Loans are granted, at present, at the rate of 7.15%¹ on the basis of specified security up to a maximum amount of 50% of the security. The volume of loans outstanding at the end of 1938 was 1,500 million francs, of which 400 millions consisted of export credits based on State credit insurance.

To meet the needs particularly of small commerce and industry constituting the clientele of the *banques populaires*, the scope of activities of the *Crédit national hôtelier*, previously restricted to the hotel industry, was extended in 1938 to other types of enterprise under the name of *Caisse centrale de crédit hôtelier, commercial et industriel*; the *Caisse* devotes part of its resources (about 30 million francs at the present time) to medium-term loans of small individual amounts.

The *Caisse des dépôts et consignations*, an organisation which administers the resources of the savings banks and social insurance funds, and the most important unit of the French money and capital market, has since 1931 played a rôle of increasing importance in making available resources for medium-term credit to industry. In that year, it was authorised to accept, *en pension*, bills created by the commercial banks to represent advances—ranging from six months to five years—granted to their industrial clients. In 1938, the rate of interest for such bills accepted *en pension* varied from 4% for six-month bills to 5¼% for bills payable in four or five years. The total volume of such medium-term credit under rediscout at the *Caisse* amounted at the end of 1938 to 488 million francs.

(d) *Switzerland.*

There are no institutions specialising in the provision of medium-term credit to industry in Switzerland. Such credit facilities are granted by the big commercial banks, by local banks and—to a certain extent—by the cantonal banks,

¹ The effective burden of interest to the borrower may be reduced by grants from the State, within the limits of a sum provided for in the budget, when the loan is used for certain specified improvements or extensions of capital equipment.

transacting more particularly business which is not normally undertaken by commercial banks. In Switzerland, the greater part of the long-term funds at the disposal of the banks is raised through the issue of cash bonds (*obligationen*) bearing fixed interest and issued for periods varying from three to ten years.

(e) *Belgium.*

In Belgium, a special credit institution—the *Société nationale de crédit à l'industrie*—was created as early as 1919 with the object of granting medium-term credit to agricultural, industrial and commercial enterprises. In the first years of its existence, it expanded rapidly on account of the large credit requirements of post-war reconstruction, but its activity slowed down for some years after 1924. After 1928, the volume of its business again increased, its loans outstanding totalling about 1,300 million francs from 1930 to 1934, the greater part guaranteed by private banks. In 1937, its statutes were amended in such a way as to increase the influence of the Government and of the National Bank and to enlarge the scope of its operations, while the maximum term of its advances was reduced from twenty to ten years. Its resources consist primarily of its own capital (subscribed by private individuals and by the private banks) and reserve funds; it also accepts time deposits and issues *bons de caisse* of five-year maturity, the interest on which is guaranteed by the State. Loans must be granted as close to cost as possible, but the S.N.C.I. none the less makes a satisfactory annual profit.

Continuing the policy of increasing credit facilities to small industry, the Government, in 1937, extended the activity of several public credit institutions; the *Office central de crédit hypothécaire*, established in 1936 to assist in the liquidation of mortgage loans, was authorised in 1937 to grant mortgage loans on buildings for industrial purposes. A series of decrees provided for the co-ordination of the institutions entrusted with the granting of credit facilities to the middle classes. The Temporary Credit Fund for the Middle Classes, set up in 1934 and due to be liquidated in 1939, was transformed in 1937 into a *Caisse nationale de crédit aux classes moyennes* and its activity extended to 1959. A decree of 1937 established a *Conseil de coordination des institutions de crédit aux classes moyennes*, entrusted with the co-ordination, with the aid of the National Bank and the General Savings Bank, of the activity of the *Caisse nationale de crédit aux classes moyennes*, the *Fonds de garantie au crédit pour l'outillage artisanal* (created in 1929), the *Caisse centrale de petit crédit professionnel* (created in 1929 and reorganised in 1937) and the *Office central de crédit hypothécaire*. The activity, the organisation and the powers of the credit institutions "of public interest" were co-ordinated in 1937 by a *Conseil des institutions de crédit*. These institutions have been only recently established, and the volume of their operations is not large.

(f) *Netherlands.*

In the Netherlands, the establishment of special institutions to finance small and middle-sized industrial enterprises with the help of public funds has been advocated since 1932. The movement started with the creation of regional institutions to study the possibilities of establishing new industries or extending existing industrial enterprises if the required investment capital could be obtained. In

1935, an *Industrial Bank of Limburg* was established, the greater part of its capital being subscribed by the Province of Limburg and a number of large municipalities in this province. The volume of its business is very limited. Later, the Government founded a central industrial bank under the name of *Company for Industrial Financing* with the object of granting medium- or long-term credits to industrial enterprises "in so far as the extension of employment of Netherlands industry may be promoted thereby". The Company may also grant credits to, and participate in the capital of, authorised regional industrial banks, and take over credits from them. The credits are granted on a commercial basis, guarantees taking the form of mortgages, securities, etc. The interest charged is generally 5%. The Company has in some cases participated in the capital of industrial enterprises. From its establishment to the end of 1938, the total of credits approved was 2½ million florins; there have been, in addition, some capital participations.

(g) *Sweden.*

In Sweden, the Government, in co-operation with a number of the larger Swedish banks, established in 1934 a joint-stock company called *Industrial Credits Company* with paid-up capital of 8 million kronor, charged with granting credits not exceeding ten years to middle-sized and small industries and artisans, primarily for the purpose of financing the renewal of plant, the enlargement or rationalisation of the existing undertakings and the sale against long-term contracts of products made by the borrower. It may also give guarantees. It normally takes as security real estate mortgages, but also mortgages on plant and stock backed by a personal guarantee. The Company may not accept deposits, but it may issue bonds to the total amount of four times its guarantee and reserve funds; it has not, however, issued any bonds to date. The guarantee fund is a State contribution in the form of Government securities amounting to 12 million kronor. Since October 1937, the rate of interest charged has been 3½%. Loans outstanding at the end of 1938 totalled 4.9 million kronor.

Another medium-term credit institution—the *Shipping Mortgage Bank*—was created in 1930, with the object of granting mortgage loans of ten to twelve years on ships. The State has placed a guarantee fund of 10 million kronor at the disposal of the bank, which may issue bonds up to 100 million kronor. At the end of 1937, the outstanding bond debt of the bank was 37 million kronor and the outstanding loans 38 million kronor; the rate of interest is 3¼%.

The facilities offered to medium- and long-term borrowers by these institutions have been supplemented by various loan funds established by the Government to meet the needs of certain classes of industry. A *Fund for Loans to Industrial Undertakings*, reorganised in 1927, grants credits not exceeding ten years for the establishment of new industries, particularly those of importance to agriculture. A *Fund for Loans to Small Industries*, created in 1818, and a *Fund for Loans to Artisans*, established in 1910, supply the working capital or funds for the purchase of machinery to small entrepreneurs. The loan period may be high as six years; the rate of interest is 4%. A *Fund for Loans to the Shipping Industry*, set up in 1903, grants loans to shipping companies to finance renewals and modernisations of ships. A *Fund for Loans on Second Mortgages on Ships* was established in 1936.

(h) *Poland.*

Most Polish commercial banks were originally of the *banque d'affaires* type and many of them have retained the practice of granting to industry credits of the character of medium-term loans. These loans generally take the form of a credit on current account secured by mortgage. During the past year, the *Banque de l'économie nationale*—a State institution—has begun to grant medium-term debenture credits to industry (*crédits obligataires*). These credits may not exceed 50% of the value of the land, 40% of the value of the buildings or 33¼% of the value of the machines on which the mortgage is taken. Their duration is three to seven years, and they are repayable in equal half-yearly instalments; in exceptional circumstances, amortisation may be postponed for two years. The rate charged is 6%. The *Banque de l'Economie nationale* issues its own 7½-year State-guaranteed bonds up to the amount of the loans granted; retirement of these bonds takes place *pari passu* with the repayment of the loans on which they are based. It is still too soon to say to what extent there is a legitimate demand for these loans from Polish industry.

(i) *Roumania.*

In Roumania, there was no special institution for supplying medium-term credit until 1937. Before the economic and financial crisis of 1930-1934, entrepreneurs were in a position to obtain credits at the commercial banks, though at very high rates. With the drastic fall of prices during the depression, most of the loans granted by the commercial banks were frozen. In order to avoid a complete breakdown of the banking system, the National Bank rediscounted large amounts of illiquid bills which it kept in its portfolio during subsequent years. Special legislative measures were adopted to liquidate these debts. In these conditions, the Government created in 1937 and 1938 several official institutions, entrusted with the supplying of credit to the mining industry (*Bank of Gold and Metal Enterprises*), to agricultural industries (*Bank for the Processing and Marketing of Agricultural Products*) and to the middle classes (*National Institute of Artisan Credit*). The resources of these institutions were provided, to a large extent, by the Government; in addition, they were given power to rediscount bills at the National Bank and to issue bonds eligible as collateral at the National Bank and public banking institutions. The total credits granted by the Bank of Gold and Metal Enterprises amounted in 1938 to 552 million lei.

CONCLUSIONS

9. Perhaps the most striking feature of the above summary of the machinery for the provision of medium-term credit in various countries is the fact that the total amount of credit extended by the institutions established for the purpose has been very limited. This is not to say that the question of medium-term credit is

unimportant. But the small volume of credit extended does strongly suggest that there is no great unsatisfied legitimate demand at the present time. As business revival becomes more general, the demand will doubtless grow, and there are good reasons for believing that in most countries the supply will keep pace. Where gaps exist in the financial machinery, they are narrow and are gradually being closed. It is difficult, and highly important in each case, to judge to what extent and for what purposes medium-term credits can be granted to industry on a business-like basis. The risks of lending are especially heavy in small industries, where future success is more than usually difficult to evaluate, and where the continuity of efficient management cannot readily be assured in the event of personal changes. Particularly at the present time, when economic and political conditions are changing very rapidly, lenders are reluctant to extend credit, and business reluctant to borrow, for long periods. These are factors which must be taken into account in the granting of medium-term credits. There is, in our view, no legitimate economic case which can be made out why such credits should be granted on a non-economic and highly risky basis. We have not felt that we need concern ourselves with the broad issues of social policy which may be held to justify special measures to support certain sections of the community.

10. The risks of small business, particularly at the present time, are such as to require a high proportion of equity to borrowed money; capital risks should not be covered by credits. Recently, there has been some tendency in certain countries for a few investment trusts and private corporations to take capital participations in small- and medium-sized industries, thus helping to reconcile the desire of the individual investor to diversify his risk (and hold marketable securities) with the necessity of close supervision of the funds employed in industries of the type mentioned. Such developments, though they have not gone very far up to now, are the more interesting, as certain basic tendencies appear to be reducing the volume of capital willing to undertake risks. The growing burden of taxation and increasing desire for liquidity—due partly to political conditions and partly to the necessity of taking into account future fiscal exigencies—has diminished the willingness or ability of wealthy individuals to employ funds in capital

participations of a risky and unmarketable nature. Moreover, the increased burden of taxation and Government regulation and the uncertainty of world conditions have reduced the prospective profitability of business, particularly the prospective profitability of new and untried enterprises requiring, under the most favourable conditions, a considerable interval before they can become an assured success.

The broad tendencies affecting the supply of and demand for equity capital—which are of wider scope than the provision of medium-term credit to industry—lie, however, outside our terms of reference: we do no more than mention them as requiring the most serious consideration.

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